

Self-Insurance Fund Deficit Reduction Plan January 27, 2003

Description of the Fund:

The Self-Insurance Fund is used to account for employee medical, dental, and life insurance benefit programs and the programs' administrative costs. The City purchases medical, dental, and life insurance, as well as other employee related benefits such as disability insurance. The fund also accounts for occupational health services, severance payments to employees who have retired or resigned and who meet minimum eligibility requirements, a tort liability program, and a workers' compensation program.

Background on Current Financial Condition:

The Self-Insurance Fund is in an overall negative financial condition. Revenue has not been adequate to cover expenditures since 1993, with the exception of 1997 and 2001. The Appendix to this report includes a financial snapshot of the Self-Insurance Fund from years' 1993 to 2001 actual year-end performance to years' 2002 to 2004 projected year-end performance.

As can be seen in the charts included in the Appendix, year 1995 was significant for the Self-Insurance Fund because it was the first year-end where the fund posted significant negative retained earnings. In 1995, the City hired an actuary to determine the City's incurred but not realized (IBNR) liability for the Self-Insurance Fund, as required by GASB (Government Accounting Standards Board) Statement No. 10. In addition, the actuary was hired to recommend funding rates for the various areas of exposure. As a result of GASB 10, the City, for 1995, recorded unpaid Workers Compensation, tort liability, and dental claims (including incurred but not reported claims) of \$16.4 million, which contributed significantly to the ending deficit of \$22.3 million. Prior to 1995, on a pay as you go basis, rates (paid by City departments) were closer to being sufficient to offset expenses. In 1995, the City stated it would adjust rates annually to cover the additional expense for the fund related to GASB 10 requirements to recognize expense if it was likely that a loss (from an actuarial perspective) had been incurred. In large part, this did not happen as originally planned.

Also, in years' 1995 and 1997, when the City issued bonds (totaling just over \$5.0 million) to meet settlement obligations for the Self-Insurance Fund there was no immediate action taken as to how corresponding revenue would be increased to cover debt service on these bonds. The resulting impact was a decline in the cash position of the fund.

The two areas of annual expense that historically have not had sufficient revenue are workers compensation (an approximate \$7.5 million annual expense budget) and general liability (an approximate \$8.2 million annual expense budget). With the

exception of these two major expenditure areas, all other expenditures (which are mostly related to employee benefits) have had sufficient revenue coverage.

The 2002 budget, as originally adopted by the Mayor and City Council, did include sufficient revenue to cover all projected expenses within the fund, including workers compensation and general liability. Rates paid by City departments for workers compensation and general liability were adjusted based on forecasted annual expenditures for these areas. The impact was reflected in the adopted budgets of the departments. It is projected that 2002 will end the year with a positive net income.

Deficit Reduction Plan:

In July 2002, the City Council adopted and the Mayor approved a property tax policy (for years 2003 to 2010), which included an annual commitment to provide \$500,000 in additional annual revenue increases for the Self-Insurance Fund. The annual revenue increase will be used to help eliminate the cash deficit by year-end 2006. Actual revenue will exceed expense (net income) by an increasing amount as interest paid on bonds decreases over time as the bonds are paid off. In addition, the retained earnings position of the fund will improve by nearly 30-percent from year-end 2001 to year-end 2006, although the negative balance will not be eliminated.

Table One Projected Financial Performance for Self-Insurance Fund <i>(in millions of dollars)</i>					
	Annual Revenue Provided In Excess of Expense (Net Income)	Cumulative Revenue Provided in Excess of Expense	Year-End Cash Balance	Year-End R/E Balance	Annual % Chg in R/E Balance
2003	\$1,934		\$0	(\$41,589)	
2004	\$2,611	\$4,545	\$0	(\$38,977)	-6.3%
2005	\$3,154	\$7,699	\$0	(\$35,823)	-8.1%
2006	\$3,699	\$11,398	\$0	(\$32,124)	-10.3%
2007	\$4,246	\$15,645	\$2,645	(\$27,878)	-13.2%
2008	\$4,794	\$20,439	\$6,425	(\$23,084)	-17.2%
2009	\$5,345	\$25,784	\$10,713	(\$17,739)	-23.2%
2010	\$5,900	\$31,684	\$15,175	(\$11,839)	-33.3%

Note: R/E refers to Retained Earnings.

Future Action Items:

During year 2003, the City Finance Department will work with the City Attorney's Office and the previously hired actuarial firm to gain a more thorough understanding of what is driving the liability estimates included in the 2000 actuarial report for the Self-Insurance

Fund. The liability estimates will continue to be used as the basis for calculating the annual unpaid claims liability until year 2005, when a new actuarial study will be completed.

Based on information from the City Attorney's Office it appears that the amount of the unpaid claims liability reflected in the balance sheet of the Self-Insurance Fund may possibly be overstated, based on recent years' actual liability payments. In addition, the Finance Department plans to conduct an internal review of its monthly and year-end accounting processes for handling liability payments. The Finance Department will also work with the City Attorney's Office to review their data collection process for tracking future liability costs. Based on this work that will occur during year 2003, the Finance Department will evaluate what action to take, if any, regarding the final year-end 2003 unpaid claims liability figure that will be reported.

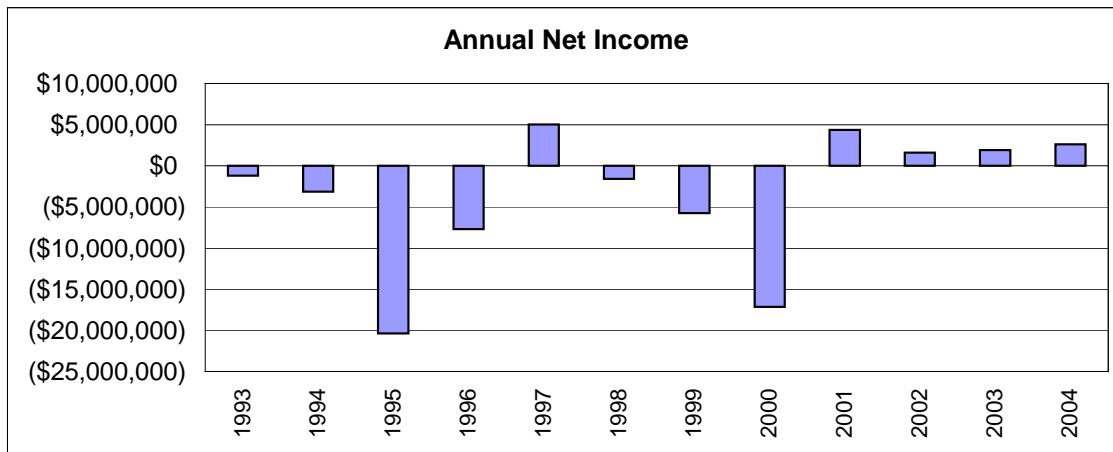
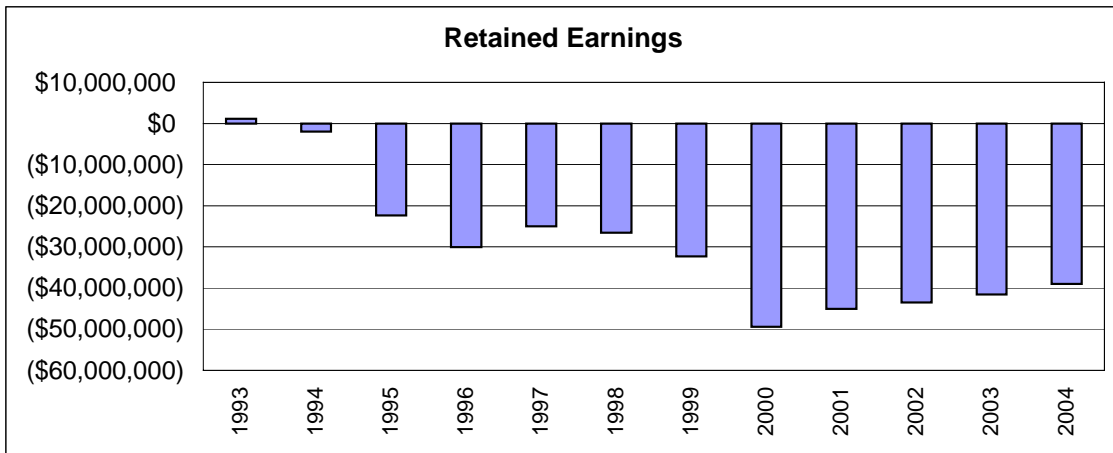
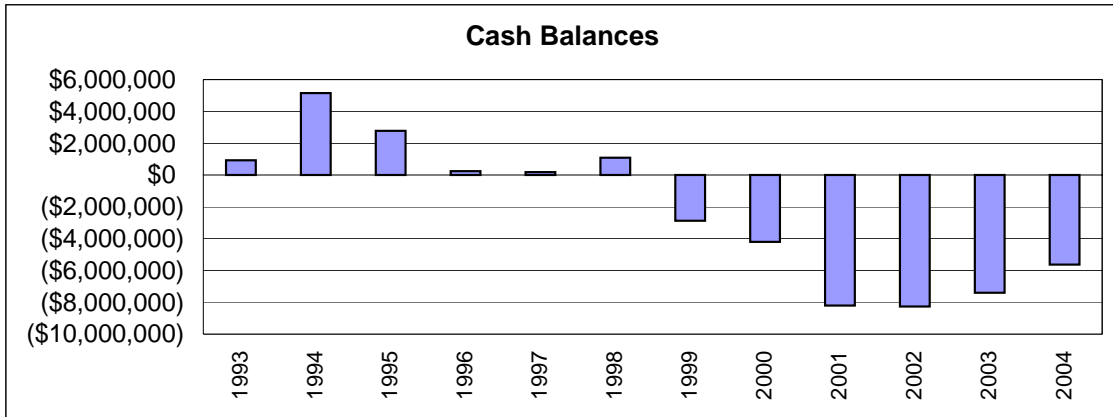
Annual Reporting to the City Council on Progress:

The Finance Department will report annually to the City Council, at year-end, with a status update and any needed changes to this deficit reduction plan for the Self-Insurance Fund. If there were to be any significant changes to the unpaid claims liability amount, the City Council would be notified of such a potential change at that time.

There is no action for the City Council to take at this time, as the year 2003 revenue for the Self-Insurance Fund, which is necessary to meet the projections shown in the attached schedules to this report, is already included in the adopted budget.

Appendix

Self Insurance Fund



Note: 2002 to 2004 represents a forecast.

**Self Insurance Fund
Internal Service Fund
Projected Balance Sheet for Future Years**

	Actual		Projected								
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
ASSETS											
Current assets:											
Cash and cash equivalents	7	21	161	-	-	-	-	2,645	6,425	10,712	15,175
Receivables:											
Accounts - net	22	30	30	30	30	30	30	30	30	30	30
Due from other funds		236	236								
Intergovernmental receivable		182	182								
Total current assets	29	469	609	30	30	30	30	2,675	6,455	10,746	15,205
Fixed assets:											
Machinery and equipment	23	24	17	17	17	17	17	17	17	17	17
Less accumulated depreciation	(16)	(20)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(17)
Computer equipment	51	53									
Less accumulated depreciation	(20)	(30)									
Software	3	3									
Less accumulated depreciation	(2)	(2)									
Other capital outlay	1	14									
Less accumulated depreciation		(1)									
Net fixed assets	40	41	-	-	-	-	-	-	-	-	-
Total assets	69	510	609	30	30	30	30	2,675	6,455	10,746	15,205
LIABILITIES AND FUND EQUITY											
Current Liabilities:											
Salaries payable	247	280	280	300	300	300	300	300	300	300	300
Accounts payable	434	758	758	700	700	700	700	700	700	700	700
Due to other funds		8,200	8,280	7,401	5,653	3,392	632				
Interfund loans payable	4,210	-									
Interest payable	46	43	36	30	26	23	19	15	11	6	
Bonds payable - current portion	745	1,530	1,600	860	890	935	965	1,010	1,050	1,435	
Total current liabilities	5,682	10,811	10,954	9,291	7,569	5,350	2,616	2,025	2,061	2,441	1,000
Long-term Liabilities:											
Bonds payable	10,275	8,745	7,145	6,285	5,395	4,460	3,495	2,485	1,435	-	-
Compensated absences balances	3,976	489	489	500	500	500	500	500	500	500	500
Unpaid claims liability	29,582	25,543	25,543	25,543	25,543	25,543	25,543	25,543	25,543	25,543	25,543
	43,833	34,777	33,177	32,328	31,438	30,503	29,538	28,528	27,478	26,043	26,043
Total Liabilities	49,515	45,588	44,131	41,619	39,007	35,853	32,154	30,553	29,539	28,484	27,043
Fund equity:											
Reserved for severance payment	3,797										
Change in Capitalization Policy			(41)								
Unreserved	(53,243)	(45,078)	(43,481)	(41,589)	(38,977)	(35,823)	(32,124)	(27,877)	(23,084)	(17,738)	(11,838)
Total fund equity	(49,446)	(45,078)	(43,522)	(41,589)	(38,977)	(35,823)	(32,124)	(27,877)	(23,084)	(17,738)	(11,838)
Total liabilities and fund equity	69	510	609	30	30	30	30	2,675	6,455	10,746	15,205

**Self Insurance Fund
Internal Service Fund
Projected Statement of Revenues and Expenses for Future Years**

	Actual		Projected								
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Operating revenues:											
Charges for services and sales	43,701	47,723	50,630	57,646	65,940	75,764	87,418	101,263	117,731	137,342	160,718
Total operating revenue	43,701	47,723	50,630	57,646	65,940	75,764	87,418	101,263	117,731	137,342	160,718
Operating expenses:											
Personal services	10,981	11,170	11,617	12,081	12,565	13,067	13,590	14,134	14,699	15,287	15,898
Health Insurance	24,545	25,992	31,190	37,428	44,914	53,897	64,676	77,611	93,133	111,760	134,112
Contractual services (not incl Health)	9,337	4,050	4,212	4,380	4,556	4,738	4,927	5,124	5,329	5,542	5,764
Materials, supplies, services and other	18,789	3,050	3,188	3,316	3,448	3,586	3,730	3,879	4,034	4,196	4,364
Rent	373	407	423	440	457	476	495	515	535	557	579
Depreciation	14	15	-	-	-	-	-	-	-	-	-
Total operating expenses	64,039	44,684	50,630	57,646	65,940	75,764	87,418	101,263	117,731	137,342	160,717
Operating income (loss)	(20,338)	3,039	(0)	(0)	0	(0)	-	0	(0)	0	1
Non-operating revenues (expense):											
Interest revenue											
Interest expense	(498)	(638)	(507)	(430)	(354)	(311)	(266)	(219)	(171)	(120)	(66)
Damages/losses recovered	2,758	17	-	-	-	-	-	-	-	-	-
Other revenues	648		-	-	-	-	-	-	-	-	-
Total non-operating revenues (expenses)	2,908	(621)	(507)	(430)	(354)	(311)	(266)	(219)	(171)	(120)	(66)
Income (loss) before operating transfers	(17,430)	2,418	(507)	(431)	(353)	(311)	(266)	(219)	(171)	(120)	(65)
Operating transfers in (out):											
Transfers from other funds	350	1,950	2,104	2,364	2,965	3,465	3,965	4,465	4,965	5,465	5,965
Transfers to other funds	(50)	-	-	-	-	-	-	-	-	-	-
Total operating transfers	300	1,950	2,104	2,364	2,965	3,465	3,965	4,465	4,965	5,465	5,965
Net income (loss)	(17,130)	4,368	1,597	1,934	2,611	3,154	3,699	4,246	4,794	5,345	5,900
Retained earnings - January 1	(32,316)	(49,446)	(45,078)	(43,522)	(41,589)	(38,977)	(35,823)	(32,124)	(27,878)	(23,084)	(17,739)
Change in Capitalization Policy			(41)								
Retained earnings - December 31	(49,446)	(45,078)	(43,522)	(41,589)	(38,977)	(35,823)	(32,124)	(27,878)	(23,084)	(17,739)	(11,839)

**Self Insurance Fund
Internal Service Fund
Projected Statements of Cash Flows for Future Years**

	Actual		Projected								
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Cash flow from operating activities:											
Operating income (loss)	(20,338)	3,039	(0)	(0)	0	(0)	-	0	(0)	0	1
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:											
Depreciation	14	15	-	-	-	-	-	-	-	-	-
(Increase) decrease in accounts receivable	7	(8)	-	-	-	-	-	-	-	-	-
(Increase) decrease in due from other funds		(236)	-	236	-	-	-	-	-	-	-
(Increase) decrease in intergovernmental receivable		(182)	-	182	-	-	-	-	-	-	-
Increase (decrease) in salaries payable	29	33	-	20	-	-	-	-	-	-	-
Increase (decrease) in accounts payable	(358)	324	-	(58)	-	-	-	-	-	-	-
Increase (decrease) in due to other funds		8,200	80	(879)	(1,748)	(2,261)	(2,760)	(632)	-	-	-
Increase (decrease) in compensated absences payable	239	(3,487)	-	11	-	-	-	-	-	0	(0)
Increase (decrease) in unpaid claims payable	7,697	(4,039)	-	-	-	-	-	-	-	-	-
(Increase) decrease in current bonds payable											
Damages/losses recovered	2,758	17	-	-	-	-	-	-	-	-	-
Other non-operating revenues	648	-	-	-	-	-	-	-	-	-	-
Total adjustments	11,034	637	80	(488)	(1,748)	(2,261)	(2,760)	(632)	-	0	(0)
Net cash provided (used) by operating activities	(9,304)	3,676	80	(488)	(1,748)	(2,261)	(2,760)	(632)	(0)	1	1
Cash flow from non-capital financing activities:											
Proceeds from bonds	8,800										
Interfund loans received	4,210										
Operating transfers from other funds	350	1,950	2,104	2,364	2,965	3,465	3,965	4,465	4,965	5,465	5,965
Principal paid on bonds	(670)	(745)	(1,530)	(1,600)	(860)	(890)	(935)	(965)	(1,010)	(1,050)	(1,435)
Interest paid on bonds	(189)	(550)	(514)	(437)	(356)	(314)	(270)	(223)	(175)	(128)	(68)
Operating transfers to other funds	(50)										
Interfund loans paid	(2,875)	(4,210)	-	-	-	-	-	-	-	-	-
Interest paid on interfund loans	(273)	(91)									
Net cash provided (used) by non-capital financing activities	9,303	(3,646)	60	327	1,749	2,261	2,760	3,277	3,780	4,287	4,462
Cash flows from capital and related financing activities:											
Acquisition and construction of fixed assets	(4)	(16)									
Net cash provided (used) by non-capital financing activities	(4)	(16)	-	-	-	-	-	-	-	-	-
Net increase (decrease) in cash and cash equivalents	(5)	14	140	(161)	1	(0)	-	2,645	3,780	4,288	4,463
Cash and cash equivalents, beginning of year	12	7	21	161	(0)	1	0	0	2,645	6,425	10,713
Cash and cash equivalents, ending of year	7	21	161	(0)	1	0	0	2,645	6,425	10,713	15,175